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SUBJECT: Mongolians Rebuff Russian Commercial Bear Hug

Ref: Ulaanbaatar 163

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¶1. (SBU) SUMMARY: Mongolia apparently completely rebuffed Russian Premier Fradkov's demands in early July for priority access for Russian firms to Mongolia's natural assets, based on details that have emerged over the last month. In return for preferential treatment, the Russians had promised to build a second rail line or some other big project. Even the tone of the visit lacked political niceties. During the gala opening dinner, Mongolia's Minister for Industry and Trade B. Jargalsaikhan publicly harangued the Russians for thinking they could dictate to the Mongolians, their former colony, to do their bidding, and told them to get in line and compete with the rest. Jargalsaikhan drew scattered applause from the Mongolian audience (and no apparent disclaimers from GOM officials). END SUMMARY.

Comment

¶2. (SBU) The GOM seems bent on getting the most out of its natural resources -- and Fradkov's demands appear to have touched off a visceral Mongolian nationalist rebellion. Grateful as Mongolians are for Russia's help in escaping the Chinese clutch in 1921 and development help thereafter (in education, medicine, infrastructure, etc.), they also remember the degradations of 70 years of Communism, followed by a devastating economic collapse in 1990-94 as the Russians abruptly withdrew economic aid reportedly amounting to US\$1 billion per year (then presented a \$12 billion bill for "loans"). The Russians may have few good tools to redress Fradkov's embarrassment and gain leverage, given that Mongolians already pay higher fuel and electricity prices (Mongolia imports 90% of its oil needs from Russia). Perhaps, as Jargalsaikhan said, Russian firms had better stop making demands, get in line and start competing with

firms from other countries (e.g., U.S., Canadian, South Korean, Japanese). Chinese firms -- and, indeed, Western ones, too -- should bear in mind the cautionary example of Russia's attempt to do an end run thru posturing, and the sharp reaction which ensued. End Comment.

The Russians March In

13. (SBU) Russian Premier Fradkov, joined by nearly 300 businessmen, arrived in Mongolia for a bilateral economic-oriented visit just prior to the July 10-13 Mongolian national day. This year's events included celebration of the 800th anniversary of the founding of the Mongolian state. Fradkov brought with him representatives from Russia's Ministries of Transport, Agricultural, Construction, and Energy -- along with the CEOs and directors of construction and mining companies. According to Mongolian Ministry of Industry and Trade (MoIT) sources, the cavalcade ranged from wealthy oligarchs, such as Oleg Deripaska, to metal companies like Severstal.

Less Than Promising Start

14. (SBU) According to attendees, during the opening dinner, which was co-hosted by the two nations' Prime Ministers, Fradkov exhorted the Mongolians to do deals with the many businessmen he had brought along. The Russian PM lamented that Mongolia was "holding onto its mining licenses like a dog," an example of language that some Mongolian attendees found patronizing.

15. (SBU) Minister for Industry and Trade Jargalsaikhan (a self-promoting populist as much respected as reviled; see reftel)

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then stood up and, in fluent Russian, berated the Russian Prime Minister and businessmen for thinking they could push Mongolia around with politically and economically unattractive offers. "Mongolia is a sovereign, independent nation. Where were the Russians for the past 15 years, when Mongolia was really suffering and needed help? Russian investors cannot expect any preferential treatment; they will have to compete with American, Canadian, Japanese, Chinese and South Korean companies. And you cannot. The only reason you are here is that you cannot compete in the international market place with these other countries. Well, we don't need your sub-standard technologies and your corrupt business practices." Jargalsaikhan went on for some 10 minutes before PM Enkhbold finally silenced him by noting that they had run out of time. According to our sources, there was limited applause from Mongolians for Jargalsaikhan's presentation. (Note: While unreported in the Mongolian press, Jargalsaikhan's harangue is widely known among the public and, anecdotal evidence suggests, was appreciated. One eyewitness claimed that PM Enkhbold was very uncomfortable during the harangue, literally looking at his shoes and trying to slide under the table.)

16. (SBU) One source reported that, during a subsequent meeting between Jargalsaikhan and the Russian business delegation, a director of an Irkutsk mining firm stood up and chastised the Minister and the GOM for not supporting Russian efforts to enter the big projects. Jargalsaikhan angrily responded, "I don't know you. We're tired of you no-name, small-time Russians marching down here and demanding all our treasures for nothing. Sit down!" Our informant stated the room hushed, and the mortified Russian collapsed into his seat.

17. (SBU) (Note: The erratic Jargalsaikhan, the sole MP for his party, was educated and got his commercial start in Russia, doing low-level suitcase trading between Mongolia and Russia. Former Russian Ambassador Derkovsky once told the Ambassador that Jargalsaikhan loved Russia and Russia loved Jargalsaikhan, although he noted that Jargalsaikhan did not have any current business dealings with Russia.)

For All the Vodka, the Russians Leave with Small Beer

18. (SBU) As widely suggested in the Mongolian press, and confirmed by MoIT contacts, during the visit Fradkov continued to urge Mongolia to give Russian firms priority access to its market, and especially to Mongolia's mineral resources. As well as mines, the Russians wanted deals on power plants, agriculture, and railroad construction. The main Russian demand was for Mongolia's substantial, high-quality metallurgical and thermal coal deposit in the south Gobi site of Tavan Tolgoi. According to MoIT sources, the Russians proposed to the GOM a deal for Tavan Tolgoi: Seize the asset from its private holders; give it to a Russian-company chosen by the Russian government; and Russia would build Mongolia another north-south rail line or a power plant in return. The Mongolians reportedly responded that such proposals violated local mining and property rights laws and Mongolian national interests.

19. (SBU) The first deal to hit the presses was a 40,000 metric ton wheat contract with the Mongolian Ministry of Agriculture. The Russians would provide a very soft loan for the Mongolians to pay for the wheat purchase. Then came announcements of private, smallish deals made by Russian miners for rights to placer gold holdings scattered throughout Mongolia; and then silence. By the time the Russians departed, it had become clear from the very lack of public announcement that nothing major had been accomplished. One MoIT participant in the Fradkov visit events stated that, although the Russians were never particularly a jolly people in his experience, he had never seen them so stiff -- no smiles or laughs, just sullen grimaces.

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